

**REPORT OF THE AUDIT OF THE  
SPENCER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE SPENCER COUNTY FISCAL COURT**

**June 30, 2005**

The Auditor of Public Accounts has completed the audit of the Spencer County Fiscal Court for fiscal year ended June 30, 2005.

We have issued an unqualified opinion on the governmental activities and each of the major fund financial statements of Spencer County, Kentucky.

#### **Financial Condition:**

The fiscal court had net assets of \$2,629,750 as of June 30, 2005. The fiscal court had unrestricted net assets of \$864,550 in its governmental activities as of June 30, 2005, with total net assets of \$2,629,750. The fiscal court had total debt principal as of June 30, 2005 of \$947,954 with \$247,171 due within the next year.

#### **Report Comments:**

- 911 Call Center Request For Proposal And Contract Inadequate
- Jail Transport Arrangement Inappropriate

#### **Deposits:**

The fiscal court deposits were uninsured and uncollateralized by bank securities or bonds by \$4,655 as of December 31, 2004.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund, of Spencer County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Spencer County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Spencer County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, of Spencer County, Kentucky, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
Robbie Rudolph, Secretary  
Finance and Administration Cabinet  
Honorable David Jenkins, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2005 on our consideration of Spencer County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the schedule of comments and recommendations, included herein, which discusses the following report comments:

- 911 Call Center Request For Proposal And Contract Inadequate
- Jail Transport Arrangement Inappropriate

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 13, 2005



## SPENCER COUNTY OFFICIALS

For The Year Ended June 30, 2005

### **Fiscal Court Members:**

David Jenkins	County Judge/Executive
David Henry	Magistrate
Anthony Travis	Magistrate
Bill Shelburne	Magistrate
Bill Drury	Magistrate
David Goodlett	Magistrate

### **Other Elected Officials:**

Ruth Ann Hollan	County Attorney
David Houghlin	Jailer
Judy Puckett	County Clerk
Phyllis Shafar	Circuit Court Clerk
Steve Coulter	Sheriff
John "Sammy" Crafton	Property Valuation Administrator
Roger Thurman	Coroner

### **Appointed Personnel:**

Doug Williams	County Treasurer
Karen Curtsinger	Finance Officer/Deputy Judge

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**Spencer County**  
**Management's Discussion and Analysis**  
**June 30, 2005**

The financial management of Spencer County, Kentucky offers readers of Spencer County's financial statements this narrative overview and analysis of the financial activities of Spencer County for the fiscal year ended June 30, 2005. We encourage readers to consider the information here in conjunction with other information that has been furnished in our letter of transmission and the notes to the financial statements.

**FINANCIAL HIGHLIGHTS**

Spencer County had net assets of \$2,629,750 as of June 30, 2005. Unrestricted net assets are \$864,550. \$1,765,200 is invested in capital assets, net of related debt.

At the close of fiscal year 2005 Spencer County's balance sheet reported a fund balance of \$864,550.

FYE 2005 depreciation expense was \$230,660. Asset value as of June 30, 2005 is \$3,587,704.

Spencer County's total indebtedness at the close of fiscal year 2005 was \$957,954. Courthouse renovation is the biggest debt we have. Many new vehicles have been purchased for the road dept., ambulance and sheriff's department.

Spencer County's park department is growing. Now with a full-time parks director new parks are growing and more programs implemented through Spencer County's general fund. State funds of \$250,000 helped get the new parks at Waterford and Taylorsville started.

Spencer County's jail prisoners are housed in neighboring counties. This is of some expense (\$23.00/day) but cheaper than building and staffing our own jail.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The management discussion and analysis is intended to serve as an introduction to Spencer County's basic financial statements. Spencer County's financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Government-wide Financial Statements are designed to provide readers with a broad overview of Spencer County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Spencer County's assets and liabilities with the difference of the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Spencer county is improving or not.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS (Continued)**

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and accounts payable or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the county that are principally supported by taxes and intergovernmental revenues from other functions that are intended to recover all or a significant portion of their costs from user fees and charges. Spencer County's financial activities include general governmental, protection to persons and property, roads, recreation and social services.

The government-wide financial statements include not only Spencer County itself but also legally separate entities, which have a significant operational or financial relationship with the county.

## **FUND FINANCIAL STATEMENTS**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Spencer County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with financial related legal requirements. All of the funds of Spencer County can be divided into one broad category: governmental funds.

## **GOVERNMENTAL FUNDS**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Spencer County maintains four individual governmental funds. Information is presented separately in the governmental balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, road fund, jail fund, and the Public Properties Corporation bond fund.

Spencer County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

## NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**NET ASSETS.** As noted earlier, net assets may serve over time as a useful indicator of the government's financial position.

**Table 1**  
**County's Net Assets**

	<b>Governmental Activities</b>	
	2004	2005
<b>ASSETS</b>		
CURRENT ASSETS	\$ 918,543	\$ 864,550
CAPITAL ASSETS	2,385,206	2,723,154
<b>TOTAL ASSETS</b>	<b>3,303,749</b>	<b>3,587,704</b>
<b>LIABILITIES</b>		
CURRENT LIABILITIES	244,189	247,171
LONG-TERM LIABILITIES	720,014	710,783
<b>TOTAL LIABILITIES</b>	<b>964,203</b>	<b>957,954</b>
<b>NET ASSETS</b>		
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	1,421,003	1,765,200
RESTRICTED	103,950	
UNRESTRICTED	814,593	864,550
<b>TOTAL NET ASSETS</b>	<b>\$ 2,339,546</b>	<b>\$ 2,629,750</b>

## CHANGE IN NET ASSETS

2005 current cash and cash equivalents are \$864,550. Total non-current assets are \$2,723,154 making total assets \$3,587,704.

Liabilities for FYE 2005 are \$957,954.

Total net assets for FYE 2004 are \$2,629,750.

## **FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS**

Spencer County fiscal court uses fund accounting to insure and demonstrate compliance with finance related legal requirements.

*Governmental Funds Overview.* The focus of the audit is to share information on current inflows, outflows, and balances of spendable reserves. Unreserved fund balance may serve as a useful measure of a governmental net resources available for spending at the end of the fiscal year.

At the end of June 30, 2005 fiscal year the combined ending fund balance of Spencer County's governmental funds was \$864,550. The audit looks at four major funds that the county uses: General Fund, Road Fund, Jail Fund, and Spencer County Public Properties Corporation Bond Fund.

1. General fund ending fund balance was \$621,964. Most of the county's services are provided through this fund. We had to transfer \$170,000 to the jail fund to meet jail budget needs.
2. Road fund ending fund balance was \$215,463. On July 1, 2005 the last of road fund bond payments will be made. More funds will be available to work on roads next year.
3. Jail fund ending fund balance was \$27,123. We pay jailer and other transport officers to transport our prisoners to the county where they are housed and to get to court. We house our prisoners in almost all surrounding counties.
4. Spencer County Public Properties Corporation bond fund ending balance was \$0. The last payment is to be made on July 1, 2005.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

Spencer County's total general fund budget was originally \$2,025,604 for expenditures. Spencer County's general fund budgeted expenditures were amended during the fiscal year increasing the budgeted amount by \$767,250. Total receipts were \$2,566,771. General fund receipts exceeded the budget by \$79,214. Increased receipts of property taxes, planning & zoning fees, inspection fees, ambulance fees, and sheriff fee pooling are some of the reasons for this increase.

## **ROAD FUND BUDGETARY HIGHLIGHTS**

Spencer County's original road fund budget was \$717,933 and was amended during the fiscal year increasing the budgeted amount by \$357,581, with actual road receipts for the year of \$841,831.

## **JAIL FUND BUDGETARY HIGHLIGHTS**

Spencer County's original jail fund budget was \$268,300. Actual receipts were \$51,823. \$170,000 was transferred in from the general fund to cover our jail fund expenses.

## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Continued)

### CAPITAL ASSETS AND DEBT ADMINISTRATION

*Capital Assets:* As of June 30, 2005, capital assets were valued at \$1,040,293 for general government; protection to persons and property at \$346,068; roads at \$805,549; recreation and culture at \$248,508; social services at \$194,888 and general health and sanitation at \$87,848.

Additional information on the County's capital assets can be found in Note 3 of this report.

**Table 2**  
**Spencer County's Capital Assets,**  
**Net of Accumulated Depreciation**

	<b>GOVERNMENTAL ACTIVITIES</b>	
	2004	2005
LAND AND LAND IMPROVEMENTS	\$ 280,692	\$ 306,321
BUILDINGS	1,333,396	1,302,551
EQUIPMENT	251,139	328,002
VEHICLES	322,734	381,506
INFRASTRUCTURE ASSETS	197,245	404,774
TOTAL CAPITAL ASSETS	<u>\$ 2,385,206</u>	<u>\$ 2,723,154</u>

*Long-term Debt:* As of June 30, 2005, long-term liabilities outstanding were \$710,783.

*Short-term debt:* As of June 30, 2005, short-term liabilities were \$247,171 outstanding.

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Spencer County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Spencer County Treasurer, P.O. Box 397, Taylorsville, Kentucky 40071.

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**SPENCER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**SPENCER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

	<u><b>Governmental Activities</b></u>
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 864,550
Total Current Assets	<u>864,550</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	306,321
Buildings	1,302,551
Equipment	328,002
Vehicles	381,506
Infrastructure Assets - Net of Depreciation	<u>404,774</u>
Total Noncurrent Assets	<u>2,723,154</u>
Total Assets	<u>3,587,704</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Financing Obligations	<u>247,171</u>
Total Current Liabilities	<u>247,171</u>
Noncurrent Liabilities:	
Financing Obligations	<u>710,783</u>
Total Noncurrent Liabilities	<u>710,783</u>
Total Liabilities	<u>957,954</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	\$ 1,765,200
Unrestricted	<u>864,550</u>
Total Net Assets	<u>\$ 2,629,750</u>

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**SPENCER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 1,517,358	\$ 493,993	\$ 403,582	\$
Protection to Persons and Property	911,444	381,015	131,956	76,553
General Health and Sanitation	158,002	6,884	300	
Social Services	36,164			
Recreation and Culture	84,861	27,033		
Roads	398,871	361	832,122	
Debt Service	48,795			
Capital Projects	58,178			
Total Governmental Activities	3,213,673	909,286	1,367,960	76,553

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

In Lieu of Taxes

Gain on Sale of Vehicles

Miscellaneous Revenues

Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**SPENCER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

**Net (Disbursements)**  
**Receipts and**  
**Changes in Net Assets**

<b><u>Governmental</u></b>	
<b><u>Activities</u></b>	
	.
\$	(619,783)
	(321,920)
	(150,818)
	(36,164)
	(57,828)
	433,612
	(48,795)
	<u>(58,178)</u>
	.
	<u>(859,874)</u>
	.
	547,781
	17,623
	99,487
	267,512
	73,398
	17,750
	963
	126,189
	<u>12,842</u>
	.
	<u>1,163,545</u>
	.
	303,671
	<u>2,326,079</u>
	.
\$	<u><u>2,629,750</u></u>
	.

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**



**SPENCER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 621,964	\$ 215,463	\$ 27,123	\$ 864,550
Total Assets	<u>\$ 621,964</u>	<u>\$ 215,463</u>	<u>\$ 27,123</u>	<u>\$ 864,550</u>
<b>FUND BALANCES</b>				
Reserved for:				
Encumbrances	\$ 10,382	\$ 809	\$	\$ 11,191
Unreserved:				
General Fund	611,582			611,582
Special Revenue Funds	<u>214,654</u>	<u>27,123</u>		<u>241,777</u>
Total Fund Balances	<u>\$ 621,964</u>	<u>\$ 215,463</u>	<u>\$ 27,123</u>	<u>\$ 864,550</u>

**Reconciliation to Statement of Changes In Net Assets:**

Total Fund Balances	\$ 864,550
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	3,696,537
Depreciation	(973,383)
Long-term Debt from Financing Obligations Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	<u>(957,954)</u>
Net Assets Of Governmental Activities	<u>\$ 2,629,750</u>

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**SPENCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

	<u><b>General Fund</b></u>	<u><b>Road Fund</b></u>	<u><b>Jail Fund</b></u>
<b>REVENUES</b>			
Taxes	\$ 915,934	\$	\$
In Lieu Tax Payments	17,750		
Excess Fees	73,398		
Licenses and Permits	466,686		
Intergovernmental	648,720	832,122	51,061
Charges for Services	376,684		
Miscellaneous	118,279	6,245	410
Interest	9,020	3,464	352
Total Revenues	<u>2,626,471</u>	<u>841,831</u>	<u>51,823</u>
<b>EXPENDITURES</b>			
General Government	960,828	65,931	
Protection to Persons and Property	738,686		207,735
General Health and Sanitation	154,641		
Social Services	32,900		
Recreation and Culture	99,613		
Roads		707,560	
Debt Service	127,205	154,693	
Capital Projects	58,178		
Administration	393,842	102,078	5,720
Total Expenditures	<u>2,565,893</u>	<u>1,030,262</u>	<u>213,455</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>60,578</u>	<u>(188,431)</u>	<u>(161,632)</u>
<b>Other Financing Sources (Uses)</b>			
Financing Obligation Proceeds	90,000	241,506	
Underwriters's Discount		(450)	
Transfers From Other Funds	829	13,603	170,000
Transfers To Other Funds	(183,479)		
Total Other Financing Sources (Uses)	<u>(92,650)</u>	<u>254,659</u>	<u>170,000</u>
Net Change in Fund Balances	(32,072)	66,228	8,368
Fund Balances - Beginning	654,036	149,235	18,755
Fund Balances - Ending	<u>\$ 621,964</u>	<u>\$ 215,463</u>	<u>\$ 27,123</u>

The accompanying notes are an integral part of the financial statements.

**SPENCER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

<b>Public Properties Corporation Bond Fund</b>	<b>Total Governmental Funds</b>
\$	\$ 915,934
	17,750
	73,398
	466,686
	1,531,903
	376,684
	124,934
5	12,841
5	3,520,130
	1,026,759
	946,421
	154,641
	32,900
	99,613
	707,560
103,002	384,900
	58,178
	501,640
103,002	3,912,612
(102,997)	(392,482)
	331,506
	(450)
	184,432
(953)	(184,432)
(953)	331,056
(103,950)	(61,426)
103,950	925,976
\$ 0	\$ 864,550

The accompanying notes are an integral part of the financial statements.

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**SPENCER COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**SPENCER COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**Reconciliation to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$	(61,426)
--	----	----------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay		592,294
Depreciation Expense		(230,660)
Financing Obligations Proceeds		(331,506)
Difference between amount of proceeds of capital assets sold and gain reported		(2,786)
Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.		
Bond Payments		100,000
Financing Obligations Principal Amount		<u>237,755</u>
Change in Net Assets of Governmental Activities	\$	<u><u>303,671</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Spencer County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

**Blended Component Units**

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**Spencer County Public Properties Corporation**

The Public Properties Corporation (PPC) was created for the financing of road construction and repair in Spencer County. The Fiscal Court has the authority to appoint a voting majority of the PPC's board of directors and the PPC is deemed a component unit of the County. Financial information for the PPC is blended within Spencer County's financial statements.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Spencer County Elected Officials Not Part Of Spencer County, Kentucky**

Kentucky law provides for election of the officials below from the geographic area constituting Spencer County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Spencer County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Spencer County does not have any business-type activities to report in its financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Spencer County Public Properties Corporation Bond Fund - The purpose of this fund is to account for debt service requirements of revenue bonds of the fiscal court. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

**Special Revenue Funds:**

The Road Fund, and Jail Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

**Debt Service Fund:**

The Spencer County Public Properties Corporation Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-50
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50



**SPENCER COUNTY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Public Properties Corporation Bond Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the governmental funds to comply with these requirements. The Governor's Office for Local Development does not require this fund to be budgeted.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Spencer County Fiscal Court: The Spencer County Tourism Commission and the Spencer County Library.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Spencer County Fiscal Court and the City of Taylorsville: Taylorsville-Spencer County Community Industrial Development Authority.

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of December 31, 2004, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$4,655 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of December 31, 2004.

	<u>Bank Balance</u>
FDIC Insured	\$ 200,000
Collateralized with securities held by pledging depository institution in the county official's name	1,147,999
Uncollateralized and uninsured	<u>4,655</u>
Total	<u><u>\$ 1,352,654</u></u>

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 204,600	\$	\$	\$ 204,600
Total Capital Assets Not Being Depreciated	204,600			204,600
Capital Assets, Being Depreciated:				
Buildings	1,613,124			1,613,124
Equipment	351,116	102,939		454,055
Vehicles	689,980	204,416	(53,000)	841,396
Land Improvements	79,262	30,000		109,262
Infrastructure	219,161	254,939		474,100
Total Capital Assets Being Depreciated	2,952,643	592,294	(53,000)	3,491,937
Less Accumulated Depreciation For:				
Buildings	(279,728)	(30,845)		(310,573)
Equipment	(99,977)	(26,076)		(126,053)
Vehicles	(388,146)	(121,958)	50,214	(459,890)
Land Improvements	(3,170)	(4,371)		(7,541)
Infrastructure	(21,916)	(47,410)		(69,326)
Total Accumulated Depreciation	(792,937)	(230,660)	50,214	(973,383)
Total Capital Assets, Being Depreciated, Net	2,159,706	361,634	(2,786)	2,518,554
Governmental Activities Capital Assets, Net	\$ 2,364,306	\$ 361,634	\$ (2,786)	\$ 2,723,154

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 22,609
Protection to Persons and Property	82,458
General Health and Sanitation	3,361
Social Services	3,264
Recreation and Culture	15,248
Roads, Including Depreciation of General Infrastructure Assets	<u>103,720</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 230,660</u>

**Note 4. Long-term Debt**

**A. Financing Obligation - Dump Truck**

The fiscal court paid off early an obligation with the Kentucky Association of Counties Leasing Trust Program. The amount of early payment of principal was \$13,866. The agreement was originally to be paid in full on April 20, 2006.

**B. Financing Obligation - Loader**

On July 20, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$52,000. The purpose of the financing was for the purchase of a loader. The term for this agreement was 5 years with the balance to be paid in full January 20, 2006. The principal balance was \$15,000 as of June 30, 2005. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2006	<u>\$ 15,000</u>	<u>\$ 395</u>
Totals	<u>\$ 15,000</u>	<u>\$ 395</u>

**C. Financing Obligation - Road Paver**

The fiscal court paid off early an obligation with the Kentucky Association of Counties Leasing Trust Program. The amount of early payment of principal was \$10,515. The agreement was originally to be paid in full on September 20, 2006.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**D. Financing Obligation - Courthouse Renovation**

On September 21, 2001, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$900,625. The purpose of the financing was for the renovation of the courthouse. The term for this agreement was 10 years with the balance to be paid in full January 20, 2011. The Administrative Office of the Courts (AOC) pays \$29,850 directly to the trustee for KACoLT, National City Bank each February and August. The principal balance was \$588,358 as of June 30, 2005. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2006	87,308	25,344
2007	91,350	21,258
2008	95,580	16,983
2009	100,005	12,510
2010	104,635	7,829
2011	109,480	2,932
Totals	<u>\$ 588,358</u>	<u>\$ 86,856</u>

**E. Financing Obligation - Dump Truck**

The fiscal court paid off early an obligation with the Kentucky Association of Counties Leasing Trust Program. The amount of early payment of principal was \$27,306. The agreement was originally to be paid in full on October 20, 2007.

**F. Financing Obligation - Dump Truck**

The fiscal court paid off early an obligation with the Kentucky Association of Counties Leasing Trust Program. The amount of early payment of principal was \$46,511. The agreement was originally to be paid in full on July 20, 2008.

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**G. Financing Obligation - Ambulance**

On June 24, 2003, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$55,000. The purpose of the financing was for the purchase of an ambulance. The term for this agreement was 5 years with the balance to be paid in full July 20, 2008. The principal balance was \$34,884 as of June 30, 2005. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2006	\$ 10,963	\$ 902
2007	11,296	566
2008	11,639	222
2009	986	3
Totals	<u>\$ 34,884</u>	<u>\$ 1,693</u>

**H. Financing Obligation - Backhoe and Refinancing**

On December 31, 2004, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$151,506. The purpose of the financing was for the purchase of a backhoe and refinancing of three dump trucks and a paver. The term for this agreement was 5 years with the balance to be paid in full January 20, 2010. The principal balance was \$139,712 as of June 30, 2005. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2006	\$ 28,900	\$ 4,374
2007	29,761	3,360
2008	30,647	2,521
2009	31,561	1,522
2010	18,843	365
Totals	<u>\$ 139,712</u>	<u>\$ 12,142</u>

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**I. Financing Obligation - Dump Truck**

On March 10, 2005, Spencer County Fiscal Court entered into an agreement with the Kentucky Area Development District (KADD) Program through Ross, Sinclaire & Associates for \$90,000. The purpose of the financing was for the purchase of a dump truck. The term for this agreement was 1 year with the balance to be paid in full on April 1, 2006. The principal balance was \$90,000 as of June 30, 2005. The following table shows the scheduled remaining interest and principal amount due.

Fiscal Year Ended June 30	Governmental Activities	
	Scheduled Principal	Scheduled Interest
2006	\$ 90,000	\$ 3,358
Totals	<u>\$ 90,000</u>	<u>\$ 3,358</u>

**J. Financing Obligation - Sheriff's Vehicles**

On May 19, 2005, Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$90,000. The purpose of the financing was for the purchase of four vehicles for the Spencer County Sheriff. The term for this agreement was 6 years with the balance to be paid in full July 20, 2010. The principal balance was \$90,000 as of June 30, 2005. The following table shows the scheduled remaining interest and principal amounts due.

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 15,000	\$ 4,422
2007	15,000	3,114
2008	15,000	2,362
2009	15,000	1,605
2010	15,000	849
2011	<u>15,000</u>	<u>67</u>
Totals	<u>\$ 90,000</u>	<u>\$ 12,419</u>

**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**K. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 100,000	\$	\$ 100,000	\$ 0	\$ 0
Financing Obligations	864,203	331,506	237,755	957,954	247,171
Governmental Activities					
Long-term Liabilities	<u>\$ 964,203</u>	<u>\$ 331,506</u>	<u>\$ 337,755</u>	<u>\$ 957,954</u>	<u>\$ 247,171</u>

**Note 5. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$41,588 in interest on financing obligations and \$3,000 in interest on bonds.

**Note 6. Commitment**

In July 2005, the Spencer County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$250,000. The purpose of the financing was for the renovation of a building for use as an office for the planning and zoning department and for use as the fiscal court meeting room.

**Note 7. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.



**SPENCER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2005**  
**(Continued)**

**Note 8. Insurance**

For the fiscal year ended June 30, 2005, Spencer County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 9. Prior Period Adjustment**

The fiscal court previously reported a capital asset that should not have been reported. The effect of this change on the beginning net assets of the governmental activities is a decrease of \$20,900, due to capital assets previously reported in error.

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**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**



**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 788,000	\$ 880,500	\$ 915,934	\$ 35,434
In Lieu Tax Payments	14,000	14,000	17,750	3,750
Excess Fees	50,000	73,300	73,398	98
Licenses and Permits	302,800	388,900	466,686	77,786
Intergovernmental Revenue	400,204	559,057	589,020	29,963
Charges for Services	318,700	318,700	376,684	57,984
Miscellaneous	40,800	248,300	118,279	(130,021)
Interest	3,000	4,800	9,020	4,220
Total Revenues	<u>\$ 1,917,504</u>	<u>\$ 2,487,557</u>	<u>\$ 2,566,771</u>	<u>\$ 79,214</u>
<b>EXPENDITURES</b>				
General Government	816,244	1,110,212	960,828	149,384
Protection to Persons and Property	518,705	749,608	738,686	10,922
General Health and Sanitation	70,000	182,000	154,641	27,359
Social Services	36,400	40,400	32,900	7,500
Recreation and Culture	76,000	120,182	99,613	20,569
Debt Service	69,400	69,700	67,505	2,195
Capital Projects	44,000	98,000	58,178	39,822
Administration	394,855	422,752	393,842	28,910
Total Expenditures	<u>\$ 2,025,604</u>	<u>\$ 2,792,854</u>	<u>\$ 2,506,193</u>	<u>\$ 286,661</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(108,100)</u>	<u>(305,297)</u>	<u>60,578</u>	<u>365,875</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Borrowed Money	200	1,700		(1,700)
Financing Obligation Proceeds			90,000	90,000
Transfers From Other Funds			829	829
Transfers To Other Funds	(192,100)	(204,750)	(183,479)	21,271
Total Other Financing Sources (Uses)	<u>\$ (191,900)</u>	<u>\$ (203,050)</u>	<u>\$ (92,650)</u>	<u>\$ 110,400</u>
Net Changes in Fund Balance	(300,000)	(508,347)	(32,072)	476,275
Fund Balance - Beginning	<u>300,000</u>	<u>508,347</u>	<u>653,538</u>	<u>145,191</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 621,466</u>	<u>\$ 621,466</u>

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>ROAD FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 691,283	\$ 863,201	\$ 832,122	\$ (31,079)
Miscellaneous	1,200	56,915	6,245	(50,670)
Interest	400	400	3,464	3,064
Total Revenues	<u>\$ 692,883</u>	<u>\$ 920,516</u>	<u>\$ 841,831</u>	<u>\$ (78,685)</u>
<b>EXPENDITURES</b>				
General Government	\$ 42,015	\$ 42,015	\$ 57,796	\$ (15,781)
Roads	485,718	834,449	714,495	119,954
Debt Service	70,000	72,300	154,693	(82,393)
Administration	120,200	126,750	102,078	24,672
Total Expenditures	<u>\$ 717,933</u>	<u>\$ 1,075,514</u>	<u>\$ 1,029,062</u>	<u>\$ 46,452</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(25,050)</u>	<u>(154,998)</u>	<u>(187,231)</u>	<u>(32,233)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Borrowed Money	50	50		(50)
Financing Obligation Proceeds			241,506	241,506
Underwriters's Discount			(450)	(450)
Cost of Issuance			(1,200)	(1,200)
Transfers From Other Funds		12,650	13,603	953
Total Other Financing Sources (Uses)	<u>50</u>	<u>12,700</u>	<u>253,459</u>	<u>240,759</u>
Net Changes in Fund Balance	(25,000)	(142,298)	66,228	208,526
Fund Balance - Beginning	<u>25,000</u>	<u>142,298</u>	<u>142,300</u>	<u>2</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 208,528</u>	<u>\$ 208,528</u>

**SPENCER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

	<b>JAIL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental Revenue	\$ 46,000	\$ 46,000	\$ 51,061	\$ 5,061
Charges for Services				
Miscellaneous			410	410
Interest	200	200	352	152
Total Revenues	<u>\$ 46,200</u>	<u>\$ 46,200</u>	<u>\$ 51,823</u>	<u>\$ 5,623</u>
<b>EXPENDITURES</b>				
Protection to Persons and Property	\$ 257,000	\$ 257,000	\$ 207,735	\$ 49,265
Debt Service				
Administration	11,300	11,300	5,720	5,580
Total Expenditures	<u>\$ 268,300</u>	<u>\$ 268,300</u>	<u>\$ 213,455</u>	<u>\$ 54,845</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(222,100)</u>	<u>(222,100)</u>	<u>(161,632)</u>	<u>60,468</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	192,100	192,100	170,000	(22,100)
Total Other Financing Sources (Uses)	<u>192,100</u>	<u>192,100</u>	<u>170,000</u>	<u>(22,100)</u>
Net Changes in Fund Balance	(30,000)	(30,000)	8,368	38,368
Fund Balance - Beginning	<u>30,000</u>	<u>30,000</u>	<u>18,755</u>	<u>(11,245)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,123</u>	<u>\$ 27,123</u>

**SPENCER COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.



**SPENCER COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2005**



**SPENCER COUNTY  
COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2005**

NONCOMPLIANCES:

911 Call Center Request For Proposal And Contract Inadequate

We reviewed the 911 call center operations and concluded that the Request for Proposal (RFP) was very vague and did not include evaluation criteria. The RFP and contract did not fix any expiration date and therefore can be renewed for an indefinite number of years. The RFP and contract do not provide any reporting requirements or recordkeeping on the call center operations or procedures. The RFP and contract do not provide how wrecker services will be selected. The Spencer County Ethics Commission did not review the contract for the existence of a related party relationship between the contract holder and the County. We recommend that the Fiscal Court adopt a written operations manual for the call center and that future RFP's include this operations manual's use as a bid requirement. We also recommend that the Fiscal Court adopt a written policy on how wrecker services are to be assigned. We recommend that the Fiscal Court refer the 911 call center contract to the Spencer County Ethics Commission to see if the contract complies with guidelines for a related party transaction. Finally, we recommend the current contract be amended to include an expiration date and that all future contracts include a limited contract term or expiration date.

*County Judge/Executive David Jenkins' Response:*

*Ethics Commission has reviewed the contract, I don't have knowledge of findings, and there is litigation involved with this along with gag orders from the district judge.*

Jail Transport Arrangement Inappropriate

The Jailer submits a claim to the Treasurer for reimbursement on a monthly basis for transportation of prisoners by non-employees. The Jailer subsequently pays these individuals in cash on a per trip basis, based upon the claim sheets. The Jailer also prepares and issues 1099's to these individuals. The non-employees utilize county owned vehicles for transportation of prisoners.

We recommend that all payments to individuals be by check and that Fiscal Court prepare and issue the 1099's. The Jailer should prepare the reimbursement form and submit it to the Treasurer for payment. The County Attorney should review any liability issues associated with non-employees utilizing county vehicles.

*County Judge/Executive David Jenkins' Response*

*Spencer County Fiscal Court has agreed with the recommendation of the auditors office and will implement changes effective January 1, 2006.*

PRIOR YEAR:

None.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Jenkins, Spencer County Judge/Executive  
Members of the Spencer County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of Spencer County, Kentucky as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 13, 2005. Spencer County prepares its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Spencer County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether Spencer County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- 911 Call Center Request For Proposal And Contract Inadequate
- Jail Transport Arrangement Inappropriate



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

Audit fieldwork completed -  
December 13, 2005



